



SECRETARY OF THE ARMY
WASHINGTON

2005-10-14 P02:06

INFO MEMO

FOR: SECRETARY OF DEFENSE

FROM: Francis J. Harvey, Secretary of the Army

A handwritten signature in black ink, appearing to read "Francis J. Harvey".

SUBJECT: Annual Statement Required under the Federal Managers' Financial Integrity Act (FMFIA) of 1982

- As the Secretary of the Army, I recognize the importance of management controls. I have taken the necessary steps to ensure a conscientious and thorough evaluation of management controls for the Army. The results indicate that the Army's system of internal accounting and administrative control, in effect during the fiscal year ending September 30, 2005, provides reasonable assurance, with the exception of the material weaknesses noted, that management controls are in place, operating effectively, and are being used.
- The U.S. Army Audit Agency provided an independent assessment in Tab A-1. The Army achieved the FMFIA objectives within the limits described in Tab A-2. The information at Tab A-2 conveys how the Army conducted the evaluation and cites known deficiencies found in the management control process.
- The Army identified 12 material weaknesses prior to fiscal year 2005. Six of these weaknesses were closed during fiscal year 2005. Two weaknesses are currently under final review by the U.S. Army Audit Agency and are scheduled to close during the first quarter of fiscal year 2006. Our evaluation did not identify any new weaknesses during fiscal year 2005. We did, however, identify several areas of concern which are articulated in Tab A-2.
- A list of open material weaknesses is provided at Tab B-1. An explanatory narrative for each open weakness is provided at Tab B-2. An explanation for each of the weaknesses closed during fiscal year 2005 is provided at Tab B-3. A summary of the significant accomplishments and actions taken during the past fiscal year to improve the Army's management controls is provided at Tab B-4.

COORDINATION: NONE

Attachments:
As stated

Prepared By: Debra Rinderknecht, 703-693-2761

U.S. ARMY AUDIT AGENCY'S INDEPENDENT ASSESSMENT

(TAB A-1)



DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL
3101 PARK CENTER DRIVE
ALEXANDRIA, VA 22302-1596

11 August 2005

Secretary of the Army

U.S. Army Audit Agency performed an audit to provide you with an independent assessment of the Army's actions to comply with the requirements of the Federal Managers' Financial Integrity Act of 1982, Office of Management and Budget Circular A-123 (Management's Responsibility for Internal Control), DOD Directive 5010.38 (Management Control Program), and DOD Instruction 5010.40 (Management Control Program Procedures).

Based on our audit, I have concluded that the Army, as an entity, has continued its efforts to ensure that a system of management controls exists in accordance with the Integrity Act, Circular A-123, DOD Directive 5010.38, and DOD Instruction 5010.40. During FY 05 the Army remained committed to ensuring that the management control process was effective. For example:

- The Army continued to emphasize leadership, training, and process execution in day-to-day operations.
- A Senior Level Steering Group met during the fiscal year to review Army-level material weaknesses.
- The management control process benefited from the overall program direction of the Management Services and Internal Review Directorate. The directorate:
 - Provided functional guidance and education and training programs during FY 05.
 - Operated a Web site with information on the management control process.

These actions have had a positive effect on the process.

Again this year, our efforts paralleled the Army's emphasis on leadership, training, and execution of the management control process. We also concentrated on support for your annual assurance statement for the Secretary of Defense, the identification and correction of material weaknesses, and the publication of key management controls in Army regulations. Here is a summary of our results:

- Leadership continued its emphasis on the process; senior level managers at Headquarters, DA and Army major commands directly participated. Their feeder statements were generally a fair representation of the effectiveness of the process.

- Senior leadership at each level generally evaluated the materiality of weaknesses external inspection and audit activities had identified and reported those weaknesses considered to be material.
- Management levels identifying material weaknesses corrected the weaknesses or scheduled them for correction.
- Headquarters, DA activities and major commands had reasonably effective systems to monitor actions to correct material weaknesses.
- Education and training efforts generally resulted in increased awareness of requirements for feeder statements.
- Activity managers prepared feeder statements that were consolidated into an annual assurance statement the commander or equivalent signed.

The Army continues to provide senior level emphasis on the importance of a system of management controls. For example:

- U.S. Army Surface Deployment and Distribution Command was ahead of its scheduled timeline for correction of open material weaknesses.
- Great Plains Regional Medical Command held a management control videoconference with all of its military treatment facilities. Each activity briefed its management control processes (thus learning from others) and received commander feedback.
- U.S. Army Pacific Command leadership issued organizational guidance emphasizing the importance of the management control process.

However, we did find that a more robust implementation at local commands would improve the Army's management control process. Improvements such as ensuring that all personnel involved in completing management control evaluation certification statements are trained in completing and supporting the statements and documenting management control training would strengthen the process. Although some improvements were needed, the issues we identified were not significant enough to change our overall conclusion on the effectiveness of the Army's management control process.

AR 11-2 (Management Control) requires DA functional proponents to identify the areas that should have an evaluation of key management controls. The regulation also requires the functional proponent to publish key management controls, usually in the form of evaluation checklists, in its Army regulations. During FY 05 we found that the functional proponents we reviewed had generally included management control provisions in their Army regulations.

I have concluded that the Army continues its efforts to ensure that a system of management controls exists in accordance with the law and applicable guidance. I based my overall conclusion on the results of specific reviews of 27 assessable units at

10 activities the agency did as part of our annual evaluation of the process. Also, as of 21 July 2005, the Agency had issued 63 reports during FY 05 that included a specific audit objective addressing management controls. In 28 of these reports we included recommendations to improve a specific aspect of the management control process as it related to the subject matter of the audit. However, we did not identify any problem areas that materially affect your annual assurance statement for the Secretary of Defense on the status of internal accounting and administrative controls in the Army.

VR



JOYCE E. MORROW
The Auditor General

DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

(TAB A-2)

Guidelines for the Evaluation

The Army's senior management evaluated the system of internal accounting and administrative control, in effect during the fiscal year ending September 30, 2005, in accordance with the guidance in Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," as implemented by DoD Directive 5010.38, "Management Control Program," and DoD instruction 5010.40, "Management Control Program Procedures." The OMB guidelines were issued in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982." Included is an evaluation of whether the system of internal accounting and administrative control for the Army is in compliance with standards prescribed by the Comptroller General.

Objectives of Reasonable Assurance

The objectives of the system of internal accounting and administrative control of the Army are to provide reasonable assurance that:

- Obligations and costs comply with applicable law;
- Programs achieve their intended results;
- Assets are safeguarded against waste, loss, unauthorized use, and misappropriation;
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly. This ensures accounts and reliable financial and statistical reports are prepared and accountability of the assets is maintained; and
- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

Concept of Reasonable Assurance

The evaluation of management controls extends to every responsibility and activity undertaken by the Army and applies to financial, administrative, and operational controls. The concept of reasonable assurance recognizes that the cost of management controls should not exceed the expected benefits. The expected benefits and related costs of management control measures are addressed using managerial judgment. Management control problems may occur due to inherent limitations, such as resource constraints, congressional restrictions, and other similar factors. Future projections made as a result of any evaluation may be affected by changes in conditions or deterioration of procedural

compliance over time. The Army's statement of reasonable assurance is provided within these limitations.

Evaluation

The overall evaluation was performed in accordance with the guidelines above as well as information provided by external sources such as the Government Accountability Office (GAO), Department of Defense Inspector General (DODIG), Army Inspector General, and the U.S. Army Audit Agency (USAAA). The results indicate that the Army's system of internal accounting and administrative controls, in effect during fiscal year 2005, complies with the requirement to provide reasonable assurance that the objectives mentioned above were achieved, except as identified in the listed weaknesses.

Determination of Reasonable Assurance

The Army's approach to management control is based on the fundamental philosophy that all commanders and managers have an inherent management control responsibility. HQDA functional proponents are responsible for establishing sound management controls in their policy directives and for exercising effective oversight to ensure compliance with these policies. Commanders and managers throughout the Army are responsible for establishing and maintaining effective management controls over their operations and resources. This philosophy is soundly rooted in FMFIA, OMB, Department of Defense (DoD), and Army policies. The Army's management control process supports commanders and managers in meeting their inherent responsibilities by providing two additional management control mechanisms: a process for periodically conducting detailed evaluations of key management controls, and a process for developing and supporting an objective annual statement of assurance that fully discloses known material weaknesses.

The Management Control Steering Group was chartered by the OASA (FM&C), in September 2001, to assist the Army's management control staff. Composed of senior Management Control Administrators (MCAs) from throughout the Army, the Steering Group provides advice and feedback on HQDA management control initiatives. The Steering Group also identifies areas needing improvement and assists in implementing improvements in the management control process.

Management control policies and procedures are implemented and emphasized through four key components. First, and foremost, is leadership emphasis. Second is the education and training of commanders and managers in their management control responsibilities. Third is the evaluation process that clearly defines fundamental requirements and establishes accountability, while minimizing the workload burdens that ultimately detract from enthusiastic acceptance of Integrity Act objectives. Fourth is the effective process to detect, report, and correct recurring management control deficiencies.

Leadership Emphasis

Senior Army leadership has consistently demonstrated strong support for the management control process by:

-- Using the Senior Level Steering Group (SLSG) as a “senior management council” (a forum recommended by OMB Circular A-123) to review, discuss, and resolve management control issues. This executive body is composed of general officers and senior executive service members representing all areas of Army operations. As part of their oversight duties, the SLSG reviews on-going management control issues, and works towards correcting previously-reported material weaknesses. The SLSG considers additional management control deficiencies that might merit reporting as Army material weaknesses.

-- Assessing annually the implementation of the management control process. This assessment is conducted by a joint panel representing the OASA (FM&C), the Army Inspector General and the Army Auditor General, resulting in letters of commendation from the OASA (FM&C) to deserving Army staff organizations and major commands.

Education and Training

Educating Army commanders and managers at all levels on the principles and practices of sound management control is central to achieving the objectives of the FMFIA. The Army’s management control staff implemented an Army-wide education and training effort to achieve a basic understanding of management controls. This training is provided to the HQDA staff, commanders, managers, and management control administrators (MCAs) at all levels. The following is a summary of the education and training efforts:

Direct Training Assistance: The Army’s management control staff focuses its efforts primarily on embedding management control instruction in the Army’s education and training structure, rather than directly providing this instruction. This training approach is proven to be cost-effective and provides for more comprehensive management control training. It also reaches a wider student population, and increases management’s understanding of, and commitment to, effective management controls. Nevertheless, some direct training assistance is provided:

-- Local Training. During FY 2005, management control administrators provided local training to over 13,000 personnel, including commanders, assessable unit managers, supervisors, and action officers. Training was accomplished through a variety of means including classroom-style training with briefing slides, desk side briefings, and video teleconferences.

-- Management Control Web site. To more effectively communicate management control information to the total Army, the management control staff operates an Army management control homepage ensuring accurate and easily accessible information is

rapidly provided in a user-friendly manner to commanders and managers throughout the Army.

Education of Army Leadership: In an effort to make the management control process a part of the professional development of every Army commander and manager, the management control staff strives to ensure that the management control message is included in the curricula of the Army's primary leadership schools. The following leadership schools include management control instruction in their curriculum:

-- Command and General Staff College. The Command and General Staff Officer Course Intermediate Level Education consists of common core and career field phases to prepare all field grade officers for leadership positions in the Army, joint, multinational, and interagency organizations executing full spectrum operations. It annually prepares approximately 1,200 officers.

-- Garrison Commanders' Course. Designed for colonels assigned to command Army garrisons and their civilian executive assistants; this course is presented four times a year.

-- General Officer Installation Command Course. Designed for major generals assigned to command Army installations; this course is taught four times a year and addresses the topic of management controls.

-- Defense Comptrollership Program (DCP) and Professional Resources Management Course (PRMC). The DCP is a 14-month graduate level program for Army military and civilian resource managers at Syracuse University. The PRMC is a four-week professional development course taught at the University for mid-level Army managers. Management control processes are integrated into these educational activities.

-- Defense Financial Managers Course. This is a four-week course for mid-career and senior resource managers in DoD. This course is taught six times a year to over 200 students and develops student's capacity to adapt the comptroller's role to the economic, political, and social environment of their military organizations.

Training of Army Managers: In addition to direct training assistance to MCAs and efforts to improve leadership education, management control instruction is incorporated into courses designed to train Army managers. These include:

-- Army Soldier Schools. The officer and warrant officer basic/advanced courses, the advanced non-commissioned officer and first sergeant courses, and the Combined Arms and Services Staff School.

-- Army Management Staff College. The Sustaining Base Leadership and Management Program is a 12-week course designed to provide advanced professional education to approximately 600 military and civilian managers across a wide range of functional areas who will advance to fill key positions.

-- Government Audit Training Institute (GATI). The management control staff has worked with GATI (a part of the U.S. Department of Agriculture's Graduate School) to develop two courses that are tailored specifically to the Army's management control process. First, there is a basic one-day on-site course for managers on their roles and responsibilities in the management control process. During FY 2005, GATI taught three classes reaching 49 students. Second, there is a two-day course specifically designed to train MCAs on how to effectively perform their duties. During FY 2005, this course was offered 18 times reaching 445 Army students. This represents an increase of 82 students taught in FY 2005 over FY 2004.

-- Auditor Training. The USAAA has incorporated instruction on the Army's management control process into its training courses for both USAAA and Army Internal Review evaluators, with separate courses provided for basic, intermediate, and senior auditor levels.

Evaluation Process

Due to the sheer size and mission of the Army, creating and maintaining an effective management control program provides many unique challenges. To meet these challenges the Army institutionalized an aggressive evaluation process that includes:

-- Management Control Administrator (MCA). The MCAs administer the management control process within each reporting organization. MCAs are responsible for the day-to-day administration of the management control process for the commander. All reporting organizations within the Army have an assigned MCA.

-- Assessable Unit Manager (AUM). The AUM is designated by the head of the reporting organization. AUMs ensure that managers are aware of and understand their management control responsibilities, and report and correct any material weaknesses under their purview.

-- Evaluation Checklists. Army functional proponents identify the key management controls that must be evaluated. By focusing on key controls, commanders and managers can focus their limited resources on higher priority areas.

-- Management Control Plans. Commanders and managers develop and maintain a five-year management control plan. The plans cover required evaluations and any additional areas of concern. The plans also provide commanders and managers maximum flexibility in determining how evaluations are accomplished.

Detecting, Reporting, and Correcting Deficiencies

-- The Principal Deputy for Controls to the Assistant Secretary of the Army (PDASA) is a new senior position within OASA (FM&C). The PDASA has oversight for the Army's management control environment.

-- In FY 2005, the Army developed a module within the Performance Metrics Warehouse (PMW) providing Army leaders a tool for managing material weaknesses. The PMW provides enhanced oversight of corrective actions, and supports the quarterly milestone reporting to the Office of the Secretary of Defense (OSD).

-- The Army staffs a full-time special review office responsible for evaluation and oversight of financial operations supporting classified missions. The special review office ensures controls are in place to detect fraud, waste, and abuse in classified operations.

DoD Systemic Material Weaknesses

For FY 2005, OSD is reporting nine DoD systemic management control material weaknesses. DoD weaknesses include: financial management systems and processes; information technology and assurance; environmental liabilities; personnel security investigations program; real property infrastructure; contracting for services; government card program management; financial reporting of property, plant, and equipment; and financial reporting of inventories. The Army's financial reporting of general equipment is the only material weakness related to the DoD weaknesses.

Although our process did not detect new material weaknesses during fiscal year 2005, it did disclose the following areas of concern that are monitored by the Army's senior-level steering group:

- HQDA's intelligence oversight responsibilities in relation to the combatant commands should be clearly defined.
- Reserve Component (RC) dental readiness is a command and individual Soldier responsibility, and the RC must continue to improve and maintain unit dental readiness.
- Army not using existing statutory and DoD guidance to manage Soldiers who fail to meet their selected reserve service requirements.
- The testing control environment for Nuclear, Biological, and Chemical Survivability for Army Systems was not adequate to ensure that systems were survivable in contaminated environments.

(TAB B-1)
LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period:

None	<u>Title</u>	(Quarter and Fiscal Year) <u>Targeted Correction Date</u>	<u>Page</u>
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Uncorrected Weaknesses Identified During Prior Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Correction QTR and FY Date Per Last Annual Statement</u>	<u>Per This Annual Statement</u>	<u>Page</u>
<u>Supply Operations:</u>				
Logistics Asset Visibility and Accountability	FY 2004	4 th Qtr, FY 2008	4 th Qtr, FY 2008	Tab B-2-1
Financial Reporting of Equipment In-Transit	FY 1996	3 rd Qtr, FY 2007	3 rd Qtr, FY 2007	Tab B-2-3
<u>Personnel and/or Organizational Management:</u>				
Reserve Component Mobilization Accountability	FY 2003	4 th Qtr, FY 2006	4 th Qtr, FY 2006	Tab B-2-5
Line-of-Duty (LOD) and Incapacitation (Incap) Pay	FY 2002	4 th Qtr, FY 2005	1 st Qtr, FY 2006	Tab B-2-7
Manpower Requirements Determination System	FY 1997	4 th Qtr, FY 2005	1 st Qtr, FY 2006	Tab B-2-9
<u>Comptroller and/or Resource Management:</u>				
Financial Reporting of General Equipment	FY 1999	1 st Qtr, FY 2006	4 th Qtr, FY 2006	Tab B-2-11

(TAB B-1)
LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Corrected Weaknesses Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page</u>
<u>Contract Administration:</u>		
Contract Administration of Service Contracts	FY 2003	Tab B-3-1
Standard Procurement System Interface to Computerized Accounts Payable System	FY 2001	Tab B-3-2
<u>Supply Operations:</u>		
In-Transit Visibility (ITV) Policies/Standards	FY 2002	Tab B-3-3
<u>Property Management:</u>		
Management of Unexploded Ordnance	FY 1998	Tab B-3-4
<u>Information Technology:</u>		
Information System Security	FY 1996	Tab B-3-6
<u>Comptroller and/or Resource Management:</u>		
Financial Reporting of Real Property	FY 2003	Tab B-3-7

(TAB B-2)

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

Description of Issue Logistics Asset Visibility and Accountability. The Army does not have adequate visibility over all requisitions, equipment, and supplies transported to, from, and within theaters of operation. The supply chain does not effectively support asset visibility and distribution capability.

Functional Category Supply Operations

Component Army

Pace of Corrective Action Year Identified: 2nd Qtr, FY 2004
Original Targeted Correction Date: 4th Qtr, FY 2008
Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2008
Current Target: 4th Qtr, FY 2008

Reason For Change in Date(s): Not Applicable

Component/Appropriation/Account Number Army operations and maintenance

Validation Indicator Validation will be conducted by the Office of the Deputy Chief of Staff (ODSC), G-4, and USAAA.

Results Indicators The Army will have a system with asset visibility capability for tracking supplies and equipment from the factory to foxhole. This system will allow the Army to manage: its supplies and equipment shipped to units in theaters of operation. The corrections employ radio-frequency identification receipt tracking; port handling; training; deployment of logistics personnel in a timely manner; visibility and tracking of requisitions for spare/repair parts; and physical security at ports and distribution points. Corrective actions will reduce the error rate of in-transit asset data.

**Source
Document**

GAO letter dated December 18, 2003, Subject: Defense Logistics Observations on The Effectiveness of Logistics Activities during Operation Iraqi Freedom, (GAO-04-305R).

**Progress to
Date**

Major Milestones in Corrective Action:

A. Completed Milestones in Fiscal Year 2005:

<u>Date:</u>	<u>Milestone:</u>
FY 2005	SARSS – Battlefield Planning System (BPS) initial operating capability (Connect Focus Area Integrated Product Team (IPT)). Movement Tracking System Expanded Fielding. Army RF Implementation Strategy. Satellite Communications (SATCOM) Phase One – Software Support Activity/Logistic nodes (Connect Focus Area IPT).

B. Planned Milestones (Fiscal Year 2006):

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2006	Army Radio Frequency Identification (RFID) Strategy. Combat Service Support Very Small Aperture Terminal Phase One – SSA/Log Nodes (Connect Focus Area IPT).

C. Planned Milestones (Beyond Fiscal Year 2006):

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2007	SARSS – BPS Fielding (Connect Focus Area IPT). SATCOM Final Phase – maneuver battalion level (Connect Focus Area IPT).

C. Planned Milestones (Beyond Fiscal Year 2006):

<u>Date:</u>	<u>Milestone:</u>
FY 2008	Global Combat Support System-A (fielded). Battle Command Sustainment Support System (fielded).

4 th Qtr, FY 2008	USAAA review and validation completed.
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Description of Issue Financial Reporting of Equipment In-Transit. Systems interface and logistics process problems cause a significant portion of the in-transit records displayed by the Continuing Balance System-Expanded (CBS-X) to be invalid. The receipt transactions did not close out the shipment (in-transit) records. As a result, the Army did not have reliable data on the value of equipment in-transit, and the value of in-transits reported on the Army's financial statements was misstated by a significant but unknown amount.

Functional Category Supply Operations

Component Army

Pace of Corrective Action Year Identified: FY 1996
Original Targeted Correction Date: FY 1999
Targeted Correction Date in Last Year's Report: 3rd Qtr, FY 2007
Current Target: 3rd Qtr, FY 2007

Reason For Change in Date(s): Not Applicable

Component/ Appropriation /Account Number Army operations and maintenance

Validation Indicator Validation will be conducted by the ODCS, G-4, and USAAA.

Results Indicators Corrective actions will reduce the error rate of in-transit asset data to an acceptable level and will improve asset data accuracy in Logistics Integrated Data Base (LIDB), thus improving asset reporting and document closure procedure

Source Document GAO/AIMD-93-31, "FINANCIAL MANAGEMENT: Army Lacks Accountability and Control Over Equipment," September 1993; USAAA Audit Report AA 96-156, "Financial Reporting of Equipment In Transit," June 1996.

Progress to Date Major Milestones in Corrective Action:

A. Completed Milestones in Fiscal Year 2005:

<u>Date:</u>	<u>Milestone:</u>
FY 2005	Participated in G-Army Initial Production Tests which will run thru FY 2007 until fielded. Fielding of PBUS-E completed.

B. Planned Milestones (Fiscal Year 2006):

<u>Date:</u>	<u>Milestone:</u>
FY 2006-2007	Second fielding of Logistics Modernization Program. Completion of fielding required in order for records scrubs to be completed. Records scrubs completed. Prevention policy issued.
FY 2006-2007	USAAA validation of records to restart. Request to USAAA for records validation will be determined by completion of records scrub.

C. Planned Milestones (Beyond Fiscal Year 2006):

<u>Date:</u>	<u>Milestone:</u>
FY 2006-2013	Single Army Logistics Enterprise component fielding to Block 3 completed by FY 2013.
2 nd Qtr, FY 2007	Request USAAA validates corrective actions.
3 rd Qtr, FY 2007	USAAA review and validation completed.

Description of Issue	Reserve Component (RC) Mobilization Accountability. RC mobilization accountability must provide better integrated management controls for tracking RC personnel in the “mobilization pipeline.” Currently available automated management tools lack synchronization/integration for tracking RC personnel.
Functional Category	Personnel and/or Organization Management
Component	Army
Pace of Corrective Action	<u>Year Identified:</u> FY 2003 <u>Original Targeted Correction Date:</u> 4 th Qtr, FY 2004 <u>Targeted Correction Date in Last Year’s Report:</u> 4 th Qtr, FY 2006 <u>Current Target:</u> 4 th Qtr, FY 2006
Reason For Change in Date(s):	Not Applicable
Component/ Appropriation/ Account Number	Army operations and maintenance
Validation Indicator	Validation will be conducted by USAAA.
Results Indicators	Synchronization of unit identification codes among independent systems. Real-time accountability of mobilized Soldiers/units. Resolution of medical hold authority/accountability. Electronic interface of automated data systems.
Source Document	Office of the Deputy Chief of Staff, G-3 compiled information from several Army organizations.

***Progress to
Date***

Major Milestones in Corrective Action:

A. Completed Milestones in Fiscal Year 2005:

Date:
FY 2005

Milestone:
Deployment and Reconstitution Tracking Software (DAMPS) Amendment functionality improved. DAMPS Individual Mobilization Augmentation/Individual Ready Reserve. Functionality orders process. DAMPS-U CONUS Orders. Integration of DAMPS data to Integrated Total Army Personnel-Data Base, National Guard Bureau, and U.S. Army Reserve Command Individual Orders.

B. Planned Milestones (Fiscal Year 2006):

Date:
2nd Qtr, FY 2006

Milestone:
Request USAAA review and validation.

C. Planned Milestones (Beyond Fiscal Year 2006): Not Applicable.

Description of Issue	Line-of-Duty (LOD) and Incapacitation (Incap) Pay. Neither DoD nor the Army has established policy guidance, including effective management controls, for the processing of LOD and Incap pay. As a result, Army continues to have problems in the processing of LOD and Incap pay; an increased number of Soldiers dunned by medical care providers; and more frequent Inspector General investigations and congressional inquiries into late payment/unpaid medical bills.
Functional Category	Personnel and/or Organization Management
Component	Army
Pace of Corrective Action	<u>Year Identified:</u> FY 2002 <u>Original Targeted Correction Date:</u> 4 th Qtr, FY 2004 <u>Targeted Correction Date in Last Year's Report:</u> 4 th Qtr, FY 2005 <u>Current Target:</u> 1 st Qtr, FY 2006
Reason For Change in Date(s):	Validation was not completed in time for results to be reported in the FY 2005 assurance statement.
Component/ Appropriation/ Account Number	Army operations and maintenance
Validation Indicator	Validation will be conducted by USAAA.
Results Indicators	Timely and effective procedures for processing LOD and Incap pay. Fewer Soldiers dunned by medical care providers, including reducing the number of Inspector General investigations and congressional inquiries into late and unpaid medical bills.
Source Document	Army National Guard staff, state assessments, and Internal Review audits.

***Progress to
Date***

Major Milestones in Corrective Action:

A. Completed Milestones in Fiscal Year 2005:

Date:
FY 2005

Milestone:
Final Staffing with the Office of the Judge Advocate General completed. Publication of Army Regulation 135-381 and Department of the Army Pamphlet 135-381. Requested USAAA validation of corrective actions. Validation started.

B. Planned Milestones (Fiscal Year 2006):

Date
1st Qtr, FY 2006

Milestone
USAAA review and validation completed.

C. Planned Milestones (Beyond Fiscal Year 2006): Not Applicable.

Description of Issue	Manpower Requirements Determination System. The Army has not established effective manpower programs for managing and controlling Tables of Distribution and Allowances (TDAs) workload, organizations and manpower staffing, including reductions in force. The current system for manpower requirements determination lacks the ability to link workload, manpower requirements, and dollars. Thus, the Army is not capable of rationally predicting future manpower requirements based on workload.
Functional Category	Personnel and/or Organization Management
Component	Army
Pace of Corrective Action	<u>Year Identified:</u> FY 1997 <u>Original Targeted Correction Date:</u> FY 2000 <u>Targeted Correction Date in Last Year's Report:</u> 4 th Qtr, FY 2005 <u>Current Target:</u> 1 st Qtr, FY 2006
Reason For Change in Date(s):	Validation was not completed in time for results to be reported in the FY 2005 assurance statement.
Component/ Appropriation/ Account Number	Army operations and maintenance
Validation Indicator	The Office of the Deputy Chief of Staff (ODCS), G-1, and USAAA will validate corrective actions.
Results Indicators	Staffing levels of Army organizations will be based on workload associated with valid prioritized missions. Manpower requests contained in Army budget submissions and the dollars required to support the requested level of manpower will be logically developed from specific workload requirements that are derived from missions directed or approved by higher headquarters and approved by HQDA.
Source Document	Numerous USAAA audits and General Accounting Office audit reports published between 1992 and 1997.

***Progress to
Date***

Major Milestones in Corrective Action:

A. Completed Milestones in Fiscal Year 2005:

Date:
FY 2005

Milestone:
Projected and strategically analyzed workload for peacetime and wartime and linked to Operating Force inputs. Ensured accurate documentation of HQDA validated and approved manpower requirements in TDA. Issued interim change to AR 570-4, Manpower Management, to reflect policy change in approval authority for determining manpower requirements. Included contractor requirements in Generating Force manpower requirements. Requested USAAA validate corrective actions for weakness to close.

B. Planned Milestones (Fiscal Year 2006):

Date:
1st Qtr, FY 2006

Milestone:
USAAA review and validation completed.

C. Planned Milestones (Beyond Fiscal Year 2006): Not Applicable.

<i>Description of Issue</i>	Financial Reporting of General Equipment. The Army does not currently meet Federal Accounting Standards for the financial reporting of real property and general equipment. In November 1995, the Federal Accounting Standards Board issued Federal Accounting Standard Number 6, Accounting for Property, Plant, and Equipment (PP&E) requiring Federal agencies to present fairly the cost and depreciation of equipment assets in their financial statements.
<i>Functional Category</i>	Comptroller and/or Resource Management
<i>Component</i>	Army
<i>Pace of Corrective Action</i>	<u>Year Identified:</u> FY 1999 <u>Original Targeted Correction Date:</u> FY 2001 <u>Targeted Correction Date in Last Year's Report:</u> 1 st Qtr, FY 2006 <u>Current Target:</u> 4 th Qtr, FY 2006
<i>Reason For Change in Date(s):</i>	Army is evaluating the reliability and quality of property book data to ensure data is ready for closing validation.
<i>Component/ Appropriation/ Account Number</i>	Army operations and maintenance
<i>Validation Indicator</i>	USAAA will validate the effectiveness of corrective actions.
<i>Results Indicators</i>	The Army is substantially closer to receiving an unqualified audit opinion on its annual financial statements by fielding a Chief Financial Officers' Act compliant property system. In addition, the Army benefited from Defense Property Accountability System (DPAS) implementation through: improved management oversight and visibility of PP&E; improved management access to PP&E information and operating results; and standardized property book accounting throughout the Army.

**Source
Document**

Management Review (Army Equipment Working Group and Army Integrated Process Team for Real Property). Audits of Army financial statements performed by USAAA (USAAA 97-149), Army's Principal Financial Statements for Fiscal Year 1996 -- Financial Reporting of Real Property and USAAA 99-192, Army's Principal Financial Statements for Fiscal Year 1998 -- Financial Reporting of Army General Equipment Financial Statements.

**Progress to
Date**

Major Milestones in Corrective Action:

A. Completed Milestones in Fiscal Year 2005:

Date:
FY 2005

Milestone:
Conduct site assistance visits (includes accountability analysis, data validation, training, source document validation and creation, and other required actions to create auditable property records). Request Internal Review to conduct a follow-up assessment of DPAS data reliability, validating actions taken to ensure weakness can be closed.

B. Planned Milestones (Fiscal Year 2006):

Date:
2nd Qtr, FY 2006

Milestone:
Request USAAA validate corrective actions to ensure weakness can be closed.

C. Planned Milestones (Beyond Fiscal Year 2006): Not Applicable.

(TAB B-3)
MATERIAL WEAKNESSES CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIODS

<i>Description of Issue</i>	Contract Administration of Service Contracts. Army lacks effective oversight of service contracts. Specific problems include lack of planning for quality assurance (QA) requirements, inadequate training of QA personnel on their oversight responsibilities, limitations of QA personnel authority, proper QA procedures, and ensuring that QA personnel understand specific contract requirements.
<i>Functional Category</i>	Contract Administration
<i>Component</i>	Army
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none">▪ <u>Year Identified</u>: FY 2003▪ <u>Original Targeted Correction Date</u>: 2nd Qtr, FY 2005▪ <u>Targeted Correction Date in Last Year's Report</u>: 2nd Qtr, FY 2005▪ <u>Current Target</u>: Not Applicable.▪ <u>Reason for Change in Dates(s)</u>: Not Applicable.
<i>Source Document</i>	USAAA audit report dated September 23, 2002, "Managing Service Contracts," Audit Report A-2002-0580-AMA.
<i>Progress to Date</i>	Completed Milestones in FY 2005: <ul style="list-style-type: none">▪ Issued guidance to the acquisition community instructing contracting officers to detail the appropriate responsibilities and limitations of the monitors in contracting officer representative appointment letters.▪ USAAA review and validation completed.

Description of Issue Standard Procurement System (SPS) interface to Computerized Accounts Payment System (CAPS). Army contracting offices currently use SPS to write contracts for vendors at Army posts, camps, and stations with the Defense Finance and Accounting Service (DFAS) using CAPS to process payment information for most of these contracts. The Army is experiencing numerous problems getting these systems to work together effectively. Reliable electronic data feeds from contracting offices to CAPS paying offices were not established to support timely and accurate payments of contractors in accordance with 5 CFR 1315 (Prompt Payment).

Functional Category Contract Administration

Component Army

Pace of Corrective Action Year Identified: FY 2001
Original Targeted Correction Date: FY 2002
Targeted Correction Date in Last Year's Report: 1st Qtr, FY 2005
Current Target: Not Applicable.
Reason for Change in Dates(s): Not Applicable.

Validation Indicator USAAA validated the corrective actions.

Results Indicators This process will update the payment and accounting system and provide timely and accurate payment to the vendor. Additionally, the process allows contracting personnel to realize processing efficiencies.

Source Document Accounting and commercial accounts offices.

Progress to Date Completed milestones in FY 2005:

- USAAA validation completed.

<i>Description of Issue</i>	In-transit Visibility (ITV) Policies/Standards. The ITV program lacks DoD level policy that identifies standards, uniformity, and consensus to ensure interoperability between the Services and other Defense agencies.
<i>Functional Category</i>	Supply Operations
<i>Component</i>	Army
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"> ▪ <u>Year Identified</u>: FY 2002 ▪ <u>Original Targeted Correction Date</u>: FY 2002 ▪ <u>Targeted Correction Date in Last Year's Report</u>: 4th Qtr FY 2008 ▪ <u>Current Target</u>: Not Applicable. ▪ <u>Reason for Change in Dates(s)</u>: Not Applicable.
<i>Validation Indicator</i>	USAAA will validate the effectiveness of corrective actions.
<i>Results Indicators</i>	Corrective actions will improve the capability to see timely and accurate information concerning business processes, unit strategic deployments, sustainment cargo, intra-theater moves, and CONUS non-unit cargo movements.
<i>Source Document</i>	Commander, U.S. Central Command Message, 311340Z Jul 02, Subject: Operation Enduring Freedom Joint Logistics Information Requirements.
<i>Progress to Date</i>	<p>Completed milestones in FY 2005:</p> <ul style="list-style-type: none"> ▪ Army implemented appropriate actions based on the conclusions and findings of J-4 Work Group, OSD Study, and radio frequency (RF) identification policy. Army integrated RF in-transit visibility into the Standard Army Retail Supply System; fielding FY05-07. ▪ USAAA validation completed.

Description of Issue	Management of Unexploded Ordnance (UXO) and Munitions Constituents (MC). Neither DoD nor the Army has an effective, integrated, and proactive UXO and MC management program. Without a program to address these issues, the Army's access to military ranges may be restricted by outside entities such as environmental regulatory agencies.
Functional Category	Property Management
Component	Army
Pace of Corrective Action	<ul style="list-style-type: none"> ▪ <u>Year Identified</u>: FY 1998 ▪ <u>Original Targeted Correction Date</u>: FY 1999 ▪ <u>Targeted Correction Date in Last Year's Report</u>: 4th Qtr, FY 2005 ▪ <u>Current Target</u>: Not Applicable. ▪ <u>Reason for Change in Dates(s)</u>: Not Applicable.
Validation Indicator	USAAA validated the corrective actions.
Results Indicators	Correction will result in a comprehensive management program that includes an accurate inventory of Army ranges, policy, and guidance for UXO and MC management on all ranges.
Source Document	Defense Science Board Task Force report, "Unexploded Ordnance (UXO) Clearance, Active Range UXO Clearance, and Explosives Ordnance Disposal (EOD) Programs (April 1998); Department of Defense, Office of the Inspector General (DODIG) Evaluation report, "Evaluation of the Disposal of Munitions Items," (Report 97-213, September 5, 1997); General Accounting Office (GAO) Report, "Unexploded Ordnance – A Coordinated Approach to Detection and Clearance is Needed," (GAO/NSIAD-95-197, September 1995); Department of Defense Inspector General Evaluation report, "Review of Policies & Procedures Guiding the Cleanup of Ordnance on Department of Defense Lands," (November 22, 1994); Environmental Protection Agency, "Military Munitions Rule: Hazardous Waste Identification and Management; Explosives Emergencies; Manifest Exemption for Transport of Hazardous Waste on Right-of-Ways on Contiguous Properties; Final Rule," (62 FR 6221, February 12, 1997); Department of Defense "Range Rule Regulatory Impact Analysis, Final Report," (July 3, 1996); and GAO Report "Natural Resources: Defense and Interior Can Better Manage Land Withdrawn for Military Use," (NSIAD-94-87, April 4, 1994).

***Progress to
Date***

Completed milestones in FY 2005:

- Army regulation for Sustainable Range Program finalized.
- USAAA review and validation completed.

<i>Description of Issue</i>	Information Systems Security (INFOSEC). Army INFOSEC policy and procedures for managing risk to our information systems, networks, and our intelligent weapon systems are outdated and must be brought into line with evolving DoD and national practices.
<i>Functional Category</i>	Information Technology
<i>Component</i>	Army
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"> ▪ <u>Year Identified</u>: FY 1996 ▪ <u>Original Targeted Correction Date</u>: FY 2003 ▪ <u>Targeted Correction Date in Last Year's Report</u>: 2nd Qtr, FY 2005 ▪ <u>Current Target</u>: Not Applicable. ▪ <u>Reason for Change in Dates(s)</u>: Not Applicable.
<i>Validation Indicator</i>	USAAA validated the corrective actions.
<i>Results Indicators</i>	An improved ability of the Army to detect attempted intrusions through the use of automated detection software and improved training on the Army's INFOSEC. Additionally, improvements are being made in the incident report system and a corresponding decrease in the number of systems that are penetrated.
<i>Source Document</i>	Government Accountability Office (GAO) report, Information Security – Computer Attacks at Department of Defense Pose Increasing Risks, GAO Report AIMD-96-84 and USAAA Management Control Review draft report August 1996.
<i>Progress to Date</i>	<p>Completed milestones in FY 2005:</p> <ul style="list-style-type: none"> ▪ USAAA review and validation completed.

<i>Description of Issue</i>	Financial Reporting of Real Property. The Army's real property database would not allow for depreciation calculations, and subsequent entries in dollar values would override previous dollar values with no audit trail of these transactions being provided to the organization.
<i>Functional Category</i>	Comptroller and/or Resource Management
<i>Component</i>	Army
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"> ▪ <u>Year Identified</u>: FY 2003 ▪ <u>Original Targeted Correction Date</u>: 4th Qtr, FY 2004 ▪ <u>Targeted Correction Date in Last Year's Report</u>: 2nd Qtr, FY 2005 ▪ <u>Current Target Date</u>: Not Applicable. ▪ <u>Reason for Change in Dates(s)</u>: Not Applicable.
<i>Validation Indicator</i>	U.S. Army Audit Agency (USAAA) validated the corrective actions.
<i>Results Indicators</i>	The material weakness will be corrected when Integrated Facilities System (IFS) is able to calculate depreciated values for real property; preserve previous values by handling both positive and negative numbers; provide an audit trail of all real property transactions; and interface with Defense Corporate Database.
<i>Source Document</i>	USAAA Audit Report: AA 01-358, Audit of the IFS for Financial Management System Compliance, dated June 28, 2001.
<i>Progress to Date</i>	<p>Completed milestones in FY 2005:</p> <ul style="list-style-type: none"> ▪ SCP 15 (PH I) Korea training. ▪ Completed PH II software development. ▪ Completed PH II software development test. ▪ Completed PH II system qualification test. ▪ Obtained USAAA certification of changes. ▪ Completed PH II user acceptance test. ▪ Implemented SCP 16 (PH II) to the field. ▪ USAAA review and validation completed.

(TAB B-4)
MANAGEMENT CONTROL PROGRAM AND RELATED ACCOMPLISHMENTS

Description of the Issue:

To resolve pay problems for mobilized Soldiers identified in FY 04, we continue to implement corrective actions as established in a 65-item action plan provided to Congress and General Accountability Office.

Accomplishments:

Fifty-one actions completed or ongoing, including expanded training for both finance personnel and supported Soldiers and commanders; new or revised policy and procedures; compliance reviews of mobilization sites; increased staffing; systems changes; and development of performance metrics.

Seven action items are scheduled for completion in FY 06, including development and fielding the forward compatible payroll system and revising a DoD form for Family Separation Allowance.

Remaining seven action items are scheduled for FY 07, including implementation of the Defense Integrated Military Human Resources System and reorganization of U.S. Army Reserves' unit administration.

An Executive Steering Group (ESG) comprised of the ASA (FM&C), Director Army National Guard, Chief, Army Reserves, ODCS, G-1 Director for Plans and Management, and Defense Finance and Accounting Service Director for Military and Civilian Pay Services jointly oversee the progress on the 65-item action plan designed to improve pay for mobilized Soldiers. The ESG meets quarterly.

At the direction of the Secretary of the Army, the U.S. Army Audit Agency is performing a follow-up review to the GAO pay audits as well as looking at areas such as payment of theater-specific entitlements for active component Soldiers.

Description of the Issue:

Contracts awarded in Puerto Rico were not processed and paid on-time resulting in U.S. Army South (USARSO) incurring high interest penalties. Problems encountered included missing receiving reports, missing fiscal certifications for purchase card, and lack of contract reconciliations by the command.

Accomplishments:

Established a Task Force/Process Action Team (Army Contracting Agency (ACA), USARSO G-8, Directors, and Defense Finance and Accounting Service (DFAS)) to review and clean up accounts.
USARSO G-8 senior accounting staff reviewed accounting products and worked with ACA and DFAS to resolve contracting issues.
Researched and resolved ACA's Aged Uncertified Government Purchase Card accounts.
Established a central point of contact in the USARSO G-8 to resolve purchase card payment delays and tracked purchase card activity to prevent delinquencies and penalty payments.
Implemented a process for fiscal certifications of purchase card used as method of payment by ACA to: expedite certification, verify lines of accounting, and submit for timely payment.
Coordinated with DFAS to obtain missing receiving reports listing and to contact the responsible office/directorate to ensure prompt submission of reports.
Established a process for reconciliation of contracts between DFAS and ACA.

Description of the Issue:

Recent Government Accountability Office reports, newspapers, and other public media concerning Government Travel Card (GTC) abuse energized the Supreme Headquarters Allied Forces Europe (SHAPE) Battalion to emphasize compliance with the GTC program within the command.

Accomplishments:

For the past seven months, the Battalion has exceeded Army delinquency target goals:

- Overdue active accounts averaged 1.08 percent per month less than the HQDA goal of 2 percent
- Overdue dollars charged to active accounts averaged 0.992 percent less than the HQDA goal of 1.5 percent
- First Sergeants review delinquency reports distributed by the HQ Brigade Resource Management Office and immediate contact the individual and supervisor when accounts become delinquent.
- The battalion commander and executive officer are involved, when required, in contacting the cardholder's supervisor to obtain information about the delinquent account and is advised to resolve the issue.

Description of the Issue:

The General Accountability Office has been critical of the Army's accountability and control over property, plant, and equipment. Among the problems highlighted by GAO is the inability of many property systems to provide accurate and timely asset visibility and global capabilities of supporting the Army's supply chain. The Office of the Secretary of Defense approved transition to the Property Book Unit Supply-Enhanced (PBUS-E) automation system in September 2002. The command needed a way to transition to the PBUS-E in order to maintain efficient and responsive property accountability for all Modified Table of Equipment (MTOE) units.

Accomplishments:

Established a Global Combat Support-Army/Tactical Process Action Team that initiated the pre-conversion preparation actions to ensure a successful transition to PBUSE with minimum disruption to ongoing operations.

Identified 31 MTOE units that required conversion from Standard Property Book System-Redesign (SPBS-R) to PBUS-E and conducted the preliminary checks of current SPBS-R data to ensure that records were accurate and in accordance with existing regulatory policy.

Validated the SPBS-R data and forwarded it to the Data Migration Center (DMC) for further validation and checks. The DMC scheduled the new equipment and training upon data validation.

Completed operator training, data conversion/migration, and validation that resulted in the issuance of hardware by the project manager.

Description of the Issue:

Research Development and Engineering Command (RDECOM) did not have real-time oversight capability of its reporting elements management control processes.

Accomplishments:

Enhanced the RDECOM developed MCRT to capture command-level and assessable units' five-year inventories of scheduled evaluations, and real-time evaluation results with DA Forms 11-2-R automatically generated.

Included a repository in MCRT for assessable units' and command's annual statements, and the assessable unit managers' appointment memoranda to be uploaded and viewed.

Provided video tele-conference (VTC) demonstrations of the MCRT to representatives from OSD, HQDA, ASA(FM&C), USAAA, CIO/G-6, Resource Management (G-8), and HQAMC IRAC based on HQAMC MCA's request.

Shared MCRT with other organizations (Chemical Materiels Agency (CMA)), Aberdeen Proving Ground Garrison/IMA, and the 20th Support Command - these organizations used the tool when they were under this command, and elected to continue using the tool).

Shared the features of MCRT with a class that attended the DA Graduate School Management Controls Administrator's Course at this site in May 2004.

Other enhancements submitted and pending implementation: an automated training documentation repository; use of digital signature for the DA Form 11-2-R; capability to select more than one year, but not all years under the Master Inventory report; a data sheet copy and paste capability; authorization access control down to directorate level; and repository of inventory broken down to directorate level within the assessable units.

Description of the Issue:

TACOM has adopted Lean Six Sigma as a technique to review its business processes, identify/reduce waste, and improve not only critical processes found in the management control process inventory, but all processes identified by management.

Accomplishments:

TACOM currently has 128 Green Belt Candidates with 29 Green Belt Projects initiated, and 60 Black Belt Candidates with 36 Black Belt Projects initiated.

The objective of this Lean Six Sigma initiative was to fulfill training base customer equipment requirements for M1 equipment for the U.S. Army Center and Fort Knox training base within current manpower and budget levels.

- Completion of this project in early FY05 resulted in a 70 percent increase in the number of M1 tanks serviced on time.
- The service backlog was reduced from 80 to 0 tanks.
- Controls were established to maintain gains achieved, including visual management controls, standard work, and mistake-proofed processes.

The Rock Island Arsenal will begin manufacturing the M119 again, 10 years after it went out of production. The objective of this project is to restore the production facility while improving lead time and reducing defects.

- This design for Lean Six Sigma opportunity has a great potential to improve lead times and reduce defect rates.
- An estimated cost savings of \$16,500,000 with a project cost of \$752,000 should yield a 22 to 1 return on investment.

Anniston Army Depot Lean implementation on the M88 assembly line.

- Increased production from eight vehicles a month to twelve vehicles a month.
- Installed open parts' bins on each assembly line cell, allowing parts to be more accessible to the mechanics and allowing visual concept for restocking to parts keepers.
- Super market and lanes established to allow for conversion to pull system

Implementation of Lean Six Sigma concepts has increased insight and acceptance of employees previously reluctant to change.

The TACOM G-3 Enterprise Excellence Group created a database for tracking Lean Six Sigma projects.

- The database was created for a pilot program, to evaluate needs and capabilities and aid in the selection of a commercial off-the-shelf database and Lean Six Sigma management tools.
- The database currently tracks Lean Six Sigma projects; however, it is maintained by and can only be accessed by TACOM G-3.
- The final product will combine the database with a document management system, project management tools, and other utilities useful for managing the Lean Six Sigma program.
- The final product will be web-based and accessible throughout the life cycle management command.